

**Water and Wastewater Rates and Fees
November 2014**

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November 6, 2014

Honorable Mayor and Members of the City Council:

I am pleased to present the Office of the City Auditor's report on Water and Wastewater Rates and Fees. The purpose of the audit was to evaluate the effectiveness of internal controls over the establishment of water and wastewater rates and fees.

Management's response to our audit findings and recommendations, as well as target implementation dates and responsibilities, are included following the report.

We would like to thank the staff of the Water Utilities Department for their full cooperation and assistance during the project.

Lori Brooks

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City Auditor

Attachment

c: Trey Yelverton, City Manager
Theron Bowman, Deputy City Manager
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Water and Wastewater Rates and Fees Audit

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Water and Wastewater Rates and Fees



Office of the City Auditor

Lori Brooks
City Auditor

November 2014

Executive Summary

AWU follows an acceptable methodology in determining water and wastewater rates

Compliance with policies and procedures related to water service termination was noted

Opportunities for Improvement

Establishing performance measures related to the delivery of water and wastewater services

Monitoring and evaluating indirect fees for justification and appropriateness

Periodically verifying the reasonableness of service fees

Modifying indirect rate calculations for support functions and general and administrative expenses

As part of the Fiscal Year 2014 Annual Audit Plan, the City Auditor's Office conducted an audit of the development of water and wastewater rates and service fees. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objectives of the audit were to:

- Determine whether water and wastewater rates were established in accordance with accepted industry guidelines
- Verify that the Arlington Water Utilities Department (AWU) has established effective monitoring controls to verify that water and wastewater rates accomplish intended goals
- Ensure that water and wastewater service fees are supported by valid cost data, including the allocation of indirect expenses
- Verify that water shut-off practices comply with departmental policies and procedures.

Based on audit fieldwork, the City Auditor's Office determined that AWU has established an acceptable methodology in determining water and wastewater rates. AWU utilizes a rate setting methodology, which results in cost-based rates that generate revenue from each class of customer in proportion to the cost to serve each class of customer. In addition, the current methodology results in relative stability and predictability of rates, fairness in the apportionment to total cost of service among customers and promotes conservation and efficient use. Although AWU should be commended for its rate setting methodology, the City Auditor's Office did note that improvements could be made in developing, implementing and monitoring additional performance measures related to the delivery of water and wastewater services. In addition, a comparison of utility expenditures at other metroplex cities indicates the City of Arlington has one of the highest ratios of indirect expenditures.

The City Auditor's Office also concluded that AWU has complied with its own policies and procedures related to the termination of water service to delinquent customers. Utilizing sampling methods, the City Auditor's Office noted that AWU appropriately charged delinquent accounts according to its internal policies.

While AWU has established service fees in accordance with industry standards, the City Auditor's Office noted that the department does not have sufficient systems in place to periodically verify the reasonableness of established fees in comparison to actual costs. Generally, most of the fees are supported by labor estimates developed several years ago that have not been updated. Due to the lack of accurate time data, it is difficult to determine the true cost of service for a particular function and verify that the intended cost recovery was achieved.

The City Auditor's Office noted that AWU treats indirect expenses similar to general and administrative charges. While this is not technically incorrect or against industry standards, it does have a tendency to understate the total cost of some services. Costs directly related to functions, such as Operations Support and Laboratory Services, are treated as general and administrative expenses, rather than an indirect cost allocated based on the usage of direct labor attributed to those groups.

These findings and related recommendations are discussed in the Detailed Audit Findings section of this report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards. The following methodology was used in completing the audit:

- Interviewed AWU staff regarding the development of water and wastewater rates
- Reviewed the American Water Works Association (AWWA) publication “Principles of Water Rates, Fees, and Charges”
- Reviewed the Water and Wastewater Cost of Service Rate Study prepared by outside consultants
- Compared the methodology used by AWU to develop water and wastewater rates to AWWA-accepted methodologies
- Reviewed spreadsheets and supporting documentation used by AWU to develop cost of service rates
- Extracted workload data from the enQuesta billing system to ensure that adequate documentation exists to support established service fees

Background

The AWWA has published guidance and advice for establishing cost-based rates, fees and charges. According to the AWWA, cost-based rates should provide sufficient funding to allow communities to build, operate, maintain and reinvest in their water systems in a manner that provides the community with safe and reliable drinking water and fire protection.

AWU receives over 95% of its revenue from water and wastewater sales and slightly less than 4% of its revenue from service fees and charges. Impact fees, interest income and other miscellaneous items account for a very small percentage of total AWU revenue, as shown in the following chart for budgeted revenue for FY2014:

Water Revenue FY2014		
Category	Amount	Pct.
Water Sales	\$ 63,481,987	52.4%
Wastewater Sales	52,404,742	43.2%
Service Fees	4,317,339	3.6%
Impact Fees	700,000	0.6%
Interest Income	250,000	0.2%
Other	79,715	0.1%
Total	\$ 121,233,783	100.0%

Source: FY2014 Adopted Budget

Water and Wastewater Rates

During FY2013, AWU retained Red Oak Consulting to update its Water Utility Fund financial plan for FY2012 through FY2021 and to design water and wastewater rates for FY2014. The consultants used standard methods supported by the AWWA to determine the annual cost of serving various customer classes. The study noted that the most significant cost drivers for AWU are rehabilitation of treatment plants and pipe lines by the Trinity River Authority (TRA), rehabilitation of infrastructure and personnel additions by the Tarrant Regional Water District (TRWD), and increased AWU capital costs to maintain infrastructure.

The City has established rates utilizing an increasing block structure. The result is that customers are charged more per 1,000 gallons of water based on the level of usage, as shown in the chart below:

Water Conservation Rates	
Residential Block Structure	
Usage (1,000 gal)	Rate
0 – 2	\$1.60
3 – 10	\$2.28
11 – 15	\$3.36
16 – 29	\$3.88
> 30	\$4.64

During the November 2013 presentation of the cost of service study, management noted that an Arlington resident’s water bill for 10,000 gallons of service was among the lowest of 19 metroplex cities. The study identified separate water and wastewater revenue requirements and noted that FY2014 adopted rates would lead to approximately 100% cost of service recovery. The consultants recommended that future rates should be adjusted to meet future revenue requirements.

Residential customers are billed wastewater charges based on their average winter water consumption. December through March billings are used, and the highest bill is disregarded leaving the remaining three months to be averaged. That average becomes the maximum gallons a customer will be billed during the subsequent year. Winter averaging is used so that during the summer months, when water usage increases primarily due to irrigation, customers will not be paying for water that is not entering the sewer system.

Service Fees

AWU has identified 13 categories of services and has created a service fee model to aid in calculating, presenting and updating fees for services. The following chart summarizes the most significant revenue received from service fees during FY2013:

Service Fee Revenue FY 2013			
Account	Description	Revenue	Pct.
41807	SPECIAL SERVICES CHARGES	\$ 1,738,197	52%
41408	CLASS RATE SEWER SURCHARGE	797,853	24%
41417	WATER TAPS	168,467	5%
41418	LABORATORY FEES	113,825	3%
41432	BACKFLOW ASSEMBLY REGISTRATI	110,906	3%
41605	PLAT REVIEW & INSPECTION FEE	84,910	3%
41407	SEWER SURCHARGES	78,125	2%
41411	SEWER TAP INSTALLATION FEES	72,552	2%
41427	WATER ACTIVATION FEE	61,861	2%
41426	WATER CONVENIENCE FEE	33,241	1%
41303	HAULER FEES	24,558	1%
41431	BACKFLOW TESTER REGISTRATION	21,645	1%
41406	SEWER PRO RATA	15,047	1%
41102	PLANS & SPECIFICATIONS	3,511	0%
41105	SALE OF MAPS & ORDINANCES	2,298	0%
41551	FIRE LINE TAPS	2,284	0%
	TOTAL	\$ 3,329,280	100%

Source: Lawson Financial System

The ‘Special Services Charges’ account includes such items as delinquent account follow-up, penalties for late payments, pulled meters, tampering charges, returned checks and bank draft fees.

Impact Fees

Impact fees are intended to charge future residents and commercial owners for the increased cost of plant and equipment required to expand the current water and wastewater system in order to sustain a growing population. According to state guidelines, the impact fee study must be updated every five years. At each five-year period, costs are projected over the next 10 years and associated with the number of new “equivalent service units” (ESU’s) expected over the period. This forms the basis of the maximum allowable cost per ESU. The last impact fee determination study was completed in August 2002.

A resolution was passed in early 2011 authorizing the City to continue using prior approved rates and to continue working on a plan, until the Thoroughfare Development Plan (TDP) was completed (completed in 2011) and a Comprehensive Plan was adopted (expected to be adopted in 2015).

The largest cost drivers for the calculated water and wastewater impact fees were the creation and expansion of treatment facilities and elevated storage tanks. Impact fee revenue has rebounded over the past few years, after decreasing in 2010:

Water and Wastewater Impact Fee Revenue FY2009 to FY2014*							
Impact Fee	Fiscal Year						Total
	2009	2010	2011	2012	2013	2014*	
Water	\$ 704,865	\$ 396,686	\$ 562,715	\$ 435,526	\$ 451,765	\$ 398,659	\$ 2,950,216
Wastewater	261,360	188,100	301,580	249,830	294,155	240,438	1,535,463
Total	\$ 966,225	\$ 584,786	\$ 864,295	\$ 685,356	\$ 745,920	\$ 639,097	\$ 4,485,679

*Through June 2014

Based on the results of the preliminary survey, the City Auditor’s Office determined not to review impact fees as part of the water and wastewater rates and fees audit. However, the City Auditor’s Office will consider and evaluate the inclusion of a citywide audit of impact fees during future annual audit planning.

Water Shut Off Practices

According to Water Office Policies, if water service must be discontinued, a field action service fee will be charged. If it becomes necessary to lock and/or remove a meter in order to ensure that the water service remains discontinued, the appropriate service charge fees will be added. The following is a schedule of standard service charges and approximate FY2013 revenue.

Schedule of Service Charges and Estimated Revenue FY2013		
Service	Charge	Estimated Revenue FY2013
Delinquent Account Follow-up	\$ 44	\$ 823,636
After Hours	\$ 39	63,219
Returned Checks/Drafts	\$ 25	37,550
Tampering with Public Water System	\$ 250	35,750
Inactive Account Follow-up	\$ 51	26,469
Pulled Meters up to 1"	\$ 131	19,781
Non-Residential Valve Operation	\$ 168	4,872
Pulled Meters greater than 1"	\$ 426	2,130
Total		<u>\$1,013,407</u>

Source: Water Office Policies and Fee for Service Schedule

As noted in the chart above, the ‘Delinquent Account Follow-Up’ charge is used most often, accounting for more than 81% of the service charge revenue. AWU has established written policies and procedures related to the termination and shut off of water services. As part of this audit, the

City Auditor's Office reviewed departmental compliance with these written policies and procedures and noted no exceptions, regarding application of the various fees.

Detailed Audit Findings

I. AWU has not utilized available benchmarking data and performance indicators to help refine its rate structure and verify the efficiency of operations.

The AWWA has published performance indicators for water and wastewater utilities and has compiled benchmarking data to accompany those indicators. AWWA notes that these indicators were designed to help utilities providing water and wastewater services improve their operational and managerial efficiency and effectiveness. With benchmarking data, utilities can determine areas within their control where performance can be improved, and potentially establish or revise policies and practices with the goal of improving the services they provide to their communities.

AWWA notes that to make valid comparisons, performance indicators must be well-defined and used in context. If definitions are open to interpretation, utilities are essentially speaking different languages, and “apples to apples” comparisons are not achievable. Many system-specific explanatory factors may skew the results of comparisons. These can include differences in treatment requirements, system age/materials, customer base, political environment and topography. However, the AWWA has proposed more “normalized” indicators that can provide the greatest general applicability. These indicators can serve as a starting point to determine where inefficiencies may exist, and provide guidance in identifying the need for revised performance targets.

As noted in the executive summary and background section of this report, AWU has established a rate setting methodology that complies with best practices outlined by the AWWA. In addition, the City has established various performance indicators focused on workload and overall water and wastewater rates. AWU implemented the following new measures in FY2014, included in the FY2014 Adopted Budget and Business Plan:

- Maintain annual unaccounted for water percent below 12%
- Develop and implement a maintenance program that will assure all equipment works efficiently
- Employee training hours
- Radio Transmitter installations
- High hazard backflow assemblies with certified testing completed
- Reduce employee injuries

While the above measures provide management with feedback regarding expectations related to work accomplished, they do not necessarily provide feedback on the efficiency of various operations (pre-treatment, treatment, laboratory analysis, field operations, etc.) that are performed in delivering water and wastewater services to citizens.

The City Auditor’s Office reviewed guidance from the AWWA and identified several potential performance indicators/measures that would appear to be applicable to the AWU. These include, but are not limited to, the following:

- System renewal/replacement %
- Planned maintenance %

- Residential costs of service
- Customer service cost per account
- O&M cost of potable water and wastewater services
 - \$ per account
 - \$ per million gallons
 - \$ per 100 miles of pipe

Calculation and comparison of these performance measures was considered outside the scope of this review. The City has demonstrated an ability to provide quality water at one of the lowest rates in the metroplex. However, utilization and publication of available benchmark data and performance measures, could lead to the discovery of unintended deficiencies. For example, comparisons with benchmark data may lead management to realize the current percent of funds spent on system renewal/replacement is inadequate. Alternatively, monitoring of available benchmark data could provide additional confirmation that various operations are running efficiently. According to AWU management, there has recently been a renewed interest in establishing and monitoring additional performance measures. This commitment to improving a service that has already been recognized as exemplary will help ensure that the City of Arlington continues to efficiently and effectively provide residents with quality drinking water.

Recommendation:

1. The City Auditor's Office recommends that the Director of Water Utilities ensure staff utilizes applicable AWWA performance measures and benchmarks related to the delivery of water and wastewater services with the goal of identifying inefficiencies in operations and processes.

II. AWU incurs a relatively high ratio of franchise fees, payment in lieu of taxes and indirect charges that could affect its ability to offer competitive water and wastewater rates.

According to AWWA standards, no specific criteria exist that identify an appropriate level of indirect costs and fees that should be included in water and wastewater rates and fees. A utility should benchmark its expenditures for indirect costs and charges against other utilities and seek to limit or reduce these charges when possible. This will help to ensure the maximum amount of funds possible can be utilized to directly deliver quality drinking water to customers.

AWU incurs a franchise fee, indirect charges and makes a payment to the City in lieu of taxes. An analysis of nine metroplex cities revealed that only the cities of Fort Worth and Grand Prairie also incur each of these categories of expenditures. Financial statements for six of the nine cities indicated the utility only incurred an indirect charge. The following chart summarizes total FY2013 expenditures, indirect charges and transfers for the nine cities surveyed:

Administrative and Indirect Costs as Percent of Revenue
FY2013
(In 000's)

City	Total Revenue	Total Expenditures	Total Indirect Charges	Pct.
Fort Worth	\$ 352,005	\$ 285,631	\$ 25,836	7.3%
Arlington	114,234	99,769	14,448	12.6%
Irving	85,157	69,175	5,729	6.7%
Grand Prairie	57,819	58,948	8,063	13.9%
Grapevine	20,185	20,021	4,396	21.8%
Mansfield	28,178	20,988	2,822	10.0%
Euless	19,183	18,836	1,718	9.0%
Beford	17,909	17,561	2,206	12.3%
Keller	20,559	20,072	3,292	16.0%
	\$ 715,229	\$ 611,001	\$ 68,510	9.6%

Source: CAFRs

Note: Cities having water treatment capabilities include Fort Worth, Arlington and Mansfield.

Franchise fee payments, payments in lieu of taxes, indirect charges and general and administrative expenses can limit a utility's ability to offer competitive water and wastewater rates. Fortunately, the City has been able to maintain competitive water and wastewater rates, despite a relatively high ratio of indirect costs. It is important that all indirect charges incurred by the utility are monitored and evaluated on a recurring basis to ensure justification and appropriateness. Comparisons with other similar utilities may be helpful. As noted in the prior finding, comparison to benchmarks and historical data could identify inefficiencies in selected processes, or inadequate funding of specific functions.

Recommendation:

- The City Auditor's Office recommends the Director of Water Utilities ensure all indirect fees incurred are monitored and evaluated on a regular basis, to ensure justification and appropriateness.

III. AWU does not periodically verify the reasonableness or accuracy of calculated service fees.

According to the AWWA, charges for services, also referred to as *user fees*, are broadly defined as charges to the customer for a specific good or service or for the use of public facilities. The amount charged is usually based on both the cost of providing the service or facilities and the frequency and level of use. Service charges are incurred at the option of the customer and recover the specific costs of service. As noted by the AWWA, service charges must compensate the specific government entity for the provided service only. Fees received must not be collected for raising revenue beyond the cost of the provided service. The amount in excess of cost would be a tax. This implies that the entity must periodically verify the reasonableness of established service charges.

The AWWA outlines the following steps in determining the cost of providing a service:

- Step 1 – Define the Service to be Provided
- Step 2 – Identify Capital Investments Made in Order to Provide the Service
- Step 3 – Estimate Direct Labor Costs
- Step 4 – Determine Other Direct Labor Costs
- Step 5 – Determine Indirect (Overhead) Costs

Based on the City Auditor's Office review, AWU has established a methodology that meets AWWA guidelines for determining service charges. These guidelines include utilizing time and material studies to determine the average cost for various activities, as opposed to actual historical cost data. The City Auditor's Office noted that, generally, verifiable historical time data does not exist for the established service charges. Many of the time estimates included in AWU's fee for service model were initially determined several years ago by a consultant, and have not been re-evaluated or confirmed by comparison to actual results, although in most cases management believes the estimates are still valid. Due to the lack of reliable time data, the City Auditor's Office was unable to confirm whether the estimates are indeed still valid.

In attempting to confirm the time estimates for various services, the City Auditor's Office noted the following:

- **Specific (and separate) work order categories are not established for services provided**

As an example, AWU has established service charges for water and sewer taps. This service is performed by AWU's field operations divisions, but separate work order categories have not been established for the water and sewer taps. Instead, these jobs are accounted for as "Other Arlington Water System" and included with other types of work orders unrelated to water and sewer taps.

- **Time recorded for some work order categories was not complete**

The City Auditor's Office could not verify work order data for the Meter Services Division. According to AWU management, the work is recorded in the enQuesta work order management system, but not at correct hours. As a result, work orders assigned/recorded for Meter Services total \$241K for FY2013 in the work order system, as compared to over \$1 million in actual labor costs per the Lawson financial system for the same time period.

- **Some groups do not track their time**

In reviewing several fees related to work performed by the Laboratory Services Division, the City Auditor's Office noted the division does not utilize a time tracking system to segregate the cost of performing service fee work from non-service fee work. In addition to being unable to confirm the estimated time used in establishing the service fee, the City Auditor's Office was unable to estimate the relative level of effort performed overall by the division, related to service fees. The City Auditor's Office additionally noted that the Water Resources Division,

responsible for collecting water samples, testing backflow prevention devices and permitting backflow prevention installers, does not utilize a time tracking system.

Although AWWA guidelines do not dictate that utilities have sophisticated time tracking or accounting systems, they do suggest that utilities be able to segregate the costs for miscellaneous services, ensuring those who use a service pay for the cost of producing or supplying it. If accounting and time tracking systems are not adequate to properly segregate costs, other methods should be available to periodically evaluate the actual cost to provide a service, compared to revenue received. This will help ensure fees are not collected in excess of the cost to provide the service and, alternatively, revenue is sufficient to cover costs.

Recommendations:

3. The City Auditor's Office recommends the Director of Water Utilities ensure that staff periodically compares the actual cost to provide services on an aggregate basis to revenue received.
4. The City Auditor's Office recommends the Director of Water Utilities instruct staff to utilize existing and future work order and time tracking systems to specifically segregate direct labor, material and equipment costs related to service charges.

IV. The AWU fee for service model treats all indirect costs as general and administrative costs, understating the true cost of some services.

According to AWU, indirect costs related to specific goods or services are determined by considering the level of central service support that can be allocated to specific departments and functions. Formulas can be established to quantify the relationship between indirect support services and the applicable service charge-supported program. AWWA notes the use of a cost allocation plan is one way to determine indirect costs. Although these plans are frequently prepared in compliance with federal standards (Office of Management and Budget (OMB) Circular A-87), the City has not formally established such a plan.

Per the AWWA, in the absence of a complete cost allocation plan, utilities can develop indirect cost estimates using individually developed indirect cost rates. These estimates are developed by examining the level of overhead activities associated with each direct cost activity. For example, staff performing a given service will be supervised by a manager; occupy office space; use phone, fax and copy machines; and rely on other central services, such as accounting, purchasing and fleet services.

AWU accounts for expenditures by division in the Lawson financial system. In the fee for service model, AWU allocates the non-direct costs of 14 accounting units across the entire organization. While this is a fairly simple methodology, it tends to under-allocate the true cost of various functions. For example, the following chart shows the budgeted costs of the Laboratory Services accounting unit:

Laboratory Services Budgeted Expenditures FY2014	
Salaries	\$ 492,825
Benefits	<u>181,648</u>
Salaries and Benefits Total	\$ 674,473
Supplies and Services	155,526
Maintenance	20,500
Travel and Training	6,273
Fleet Charges	<u>16,019</u>
Total	198,318
Indirect Rate:	
Overhead	\$ 198,318
Salaries and Benefits	674,473
Indirect Rate	29.4%

Source: Lawson Financial System

The non-payroll expenditures included in the Laboratory Services accounting unit are appropriately considered indirect costs supporting the direct labor performed by laboratory analysts. These costs equate to 29% of laboratory services labor. However, when these costs are allocated across the whole organization, as is currently done, only a fraction (1.24%) of those expenditures is allocated to fee services performed by the Laboratory Services Division. For illustration, the City Auditor’s Office recalculated the fee for testing BOD5 (Bio-oxygen Demand) with indirect costs in the Laboratory Services accounting unit allocated only to Laboratory Services labor (as opposed to the entire organization):

Recalculated Cost BOD5 Testing		
Category	Amount	Rate
Labor - Laboratory Services	\$ 39.79	
Indirect Labor Allocation	11.54	29.00%
Subtotal	\$ 51.33	
G&A Expenditures	\$ 7.48	14.57%
Total Cost	\$ 58.81	

Source: Auditor Generated

The resulting cost, \$58.81, compares to the calculated cost of \$45.62, as shown in the fees for service model. Although the cost difference of \$13.19 (29%) seems large, because this service was performed only 258 times in FY2013, the resulting loss in revenue equates to only \$3,403 ($\$13.19 * 258$). On the other hand, this example illustrates the significant differences that can occur, depending on how indirect costs are allocated. In addition to Laboratory Services, the City Auditor’s Office noted that indirect costs related to operating the warehouse are also allocated among all cost centers. Again, these costs would appear to be more appropriately allocated only to the costs of issuing parts from the warehouse, to ensure a more accurate calculated cost of those services involving direct materials obtained from the warehouse.

Recommendations:

5. The City Auditor’s Office recommends the Director of Water Utilities ensure that staff identifies opportunities to more closely allocate indirect costs to associated direct costs.

6. The City Auditor’s Office recommends the Director of Water Utilities ensure that staff re-evaluates service fees after any adjustments are made for the allocation of indirect costs, and propose fee adjustments where necessary.

**CITY OF ARLINGTON
WATER UTILITY RATES AND FEES
AUDIT RECOMMENDATIONS AND RESPONSES**

AUDIT RECOMMENDATION	CONCUR/DO NOT CONCUR	MANAGEMENT'S RESPONSE	RESPONSIBLE PARTY	DUE DATE
1. The City Auditor's Office recommends the Director of Water Utilities ensure staff utilizes applicable AWWA performance measures and benchmarks related to the delivery of water and wastewater services with the goal of identifying inefficiencies in operations and processes.	Concur	Arlington Water Utilities changed the departmental metrics significantly for FY14. AWU is continuing to evaluate its operations to develop appropriate metrics. We will begin benchmarking against ourselves in 2015 based on historical metrics. AWU developed a performance scorecard in FY14 which includes items such as O&M costs per 100 miles of pipe and per account.	Medria Browhow	February 2015
2. The City Auditor's Office recommends the Director of Water Utilities ensure all indirect fees incurred are monitored and evaluated periodically, to ensure justification and appropriateness.	Concur	Arlington Water Utilities evaluates indirect fees annually as part of the budget process to ensure appropriateness.	Buzz Pishkur	Ongoing
3. The City Auditor's Office recommends the Director of Water Utilities ensure that staff periodically compares the actual cost to provide services on an aggregate basis to revenue received.	Concur	Arlington Water Utilities (AWU) evaluates fees annually, and for FY15, several fees were changed to recover actual costs. AWU will use data developed from the response to item 4 to adjust any fees as necessary.	Medria Browhow	December 2014

AUDIT RECOMMENDATION	CONCUR/DO NOT CONCUR	MANAGEMENT’S RESPONSE	RESPONSIBLE PARTY	DUE DATE
<p>4. The City Auditor’s Office recommends the Director of Water Utilities instruct staff to utilize existing and future work order and time tracking systems to specifically segregate direct labor, material and equipment costs related to service charges.</p>	<p>Concur</p>	<p>Arlington Water Utilities will develop pricing for each task for which a fee is charged. The pricing will be based on a sampling of each task performed in FY15.</p>	<p>Medria Browhow</p>	<p>December 2014</p>
<p>5. The City Auditor’s Office recommends the Director of Water Utilities ensure that staff identifies opportunities to more closely allocate indirect costs to associated direct costs.</p>	<p>Concur</p>	<p>Arlington Water Utilities will evaluate all fees for FY15 to ensure appropriate inclusion of all associated indirect costs, and then update.</p>	<p>Medria Browhow</p>	<p>December 2014</p>
<p>6. The City Auditor’s Office recommends the Director of Water Utilities ensure that staff re-evaluates service fees after any adjustments are made for the allocation of indirect costs, and propose fee adjustments where necessary.</p>	<p>Concur</p>	<p>Arlington Water Utilities will evaluate all fees and update as appropriate.</p>	<p>Buzz Pishkur</p>	<p>January 2015</p>